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FINANCIAL MANAGEMENT

BIA's Tribal Trust Fund Account Reconciliation Results





United States
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Accounting and Information
Management Division

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The Honorable John McCain
Chairman
The Honorable Daniel K. Inouye
Vice Chair
Committee on Indian Affairs
United States Senate

This report responds to your August 1995 request that we review the Bureau of Indian Affairs' (BIA) efforts to reconcile and certify tribal trust fund accounts. Specifically, you asked us to provide our overall observations on the results of the reconciliation effort, including (1) whether the reconciliation report clearly communicated the results of the reconciliation and fully disclosed known limitations, (2) whether the certification contract addressed the extent to which the reconciliation provided as complete an accounting as possible, and (3) the tribes' responses to BIA's reconciliation report.

When the Congress established the Indian trust fund account reconciliation requirement in the Interior Department's fiscal year 1987 supplemental appropriations act, it directed BIA to provide an accounting to the account holders and the Congress. This requirement was expanded in Interior's fiscal year 1990 appropriations act, which provided for an independent certification that the reconciliation was as complete as possible. Until BIA undertook the trust fund account reconciliations in May 1991, the accounts—some of which were 50 to 100 years old—had never been reconciled.¹ The reconciliation process was brought to a close during the fall of 1995, and, in January 1996, a report was issued to each tribe on the results associated with its accounts.

Results in Brief

Although BIA spent over 5 years and about \$21 million in a massive effort to locate supporting documentation and reconcile trust fund accounts, tribal accounts could not be fully reconciled or audited due to missing records and the lack of an audit trail in BIA's systems. The January 1996 report package that BIA provided to each tribe presented the results of the reconciliation procedures performed by its contractor for fiscal years 1973 through 1992, BIA's reconciliations for fiscal years 1993 through 1995, and a transmittal letter which described the information provided and BIA's plans

¹At the direction of the Congress, we studied and investigated tribal receipts and disbursements for fiscal years 1923 through 1951; however, as reported in our February 1, 1929, and our April 1, 1951, reports, we did not attempt to reconcile discrepancies due to inadequate records.

to meet with tribes to discuss the reconciliation results. However, because BIA's report package did not explain or describe the numerous changes in reconciliation scope and methodologies or the procedures that were not performed, the limitations of the reconciliation were not evident. Further, the certification work—which was to verify that the reconciliation was performed in accordance with BIA's reconciliation contract requirements but not that the reconciliation was as complete an accounting as possible—was not completed due to cost and time constraints. Tribes have expressed concerns about the scope and results of the reconciliation process. BIA may be unable to resolve these concerns. Also, cost considerations and the potential for missing records made individual Indian account reconciliations impractical. A legislated settlement process could be used as a framework for resolving questions about both tribal and individual Indian account balances.

Background

In response to tribes' concerns that BIA had not consistently provided them with statements on their account balances, that their trust fund accounts had never been reconciled, and that BIA planned to contract with a third party for management of trust fund accounts, the Congress established the requirement in the Interior Department's fiscal year 1987 supplemental appropriations act that BIA reconcile trust fund accounts before they could be transferred to a third party. In Interior's fiscal year 1990 appropriations act, the Congress required that BIA reconcile the accounts to the earliest possible date. In a March 1990 decision interpreting this requirement, we concluded that "Congress's evident purpose is to obtain, to the greatest extent possible, reliable baseline balances in the various accounts."

In 1990, BIA decided to address the legislative requirement that it reconcile trust fund accounts by contracting for a reconstruction of historical transactions, to ensure that tribal and individual accounts were reconciled as accurately as possible back to the earliest possible date based on available records. In May 1991, BIA awarded a reconciliation contract valued at \$12 million over a 5-year period to a major independent public accounting firm. Following a preliminary assessment of the feasibility of reconciling accounts to the earliest date possible, BIA's reconciliation contractor reported in March 1992 that records were available to research tribal accounts for fiscal years 1973 through 1992. BIA's contractor also reported that due to the level of effort and associated cost and the potential for missing documentation, it was not feasible to reconcile Individual Indian Money (IIM) accounts for individual Indians.² In addition,

²BIA also maintains some IIM accounts for tribes.

BIA determined that its contractor should use alternative procedures, rather than specific transaction testing, to verify tribal account balances where insufficient documents were available to reconstruct the accounting or where more efficient approaches were identified.

In addition to requiring that the accounts be reconciled to the earliest possible date, Interior's fiscal year 1990 appropriations act required an independent certification that the reconciliation resulted in the most complete reconciliation possible. In September 1993, BIA awarded a certification contract for \$1.2 million to another major independent accounting firm to verify that the reconciliation procedures were performed in accordance with the reconciliation contract. BIA terminated the certification contract as of November 30, 1995. As of February 14, 1996, BIA had obligated over \$21 million for the 5-year reconciliation effort, including \$18.3 million for reconciliation work and \$2.8 million for certification work.

The American Indian Trust Fund Management Reform Act of 1994 required the Secretary of the Interior to provide tribes with reconciled account statements as of September 30, 1995. To meet this requirement, BIA included reconciled account statements, which it prepared for fiscal years 1993 through 1995, in the reconciliation report package for each tribe. The act also requires the Secretary of the Interior to report to the Senate Committee on Indian Affairs and the House Committee on Resources by May 31, 1996, (1) methodologies used to reconcile the accounts, (2) whether tribes accept or dispute their reconciled account balances, and (3) how the Secretary plans to resolve any disputes.

BIA's Office of Trust Funds Management (OTFM)³ was responsible for carrying out the reconciliation and certification effort. As of the end of fiscal year 1995, OTFM reported that it managed and accounted for approximately \$2.6 billion in Indian trust funds—about \$2.1 billion for about 1,500 tribal accounts and about \$453 million for nearly 390,000 individual accounts. The balances in the trust fund accounts have accumulated primarily from payments of claims; oil, gas, and coal royalties; land use agreements; and investment income. Fiscal year 1995 reported receipts to the trust accounts from these sources totaled about \$1.9 billion, and disbursements from the trust accounts to tribes and individual Indians totaled about \$1.7 billion.

³On February 9, 1996, a Secretarial Order implemented Interior's Office of the Special Trustee for American Indians, which was established by the American Indian Trust Fund Management Reform Act of 1994. The Order also transferred OTFM from BIA to the Office of the Special Trustee.

Scope and Methodology

To provide our observations on the results of the reconciliation and certification efforts, we reviewed reconciliation and certification contracts and issue papers,⁴ contractor status reports and memoranda, and prototype reconciliation report drafts. We met with Interior, BIA, and Office of Management and Budget (OMB) officials, including BIA's Special Assistant to the Deputy Commissioner of Indian Affairs for the reconciliation project (Reconciliation Project Manager), Interior's Special Trustee for American Indians, and representatives of the independent accounting firms that BIA contracted with to perform the reconciliation and certification to discuss our concerns about the reconciliation effort and the certification contract. To obtain tribes' views on the reconciliation and certification efforts, we contacted representatives of the Intertribal Monitoring Association (ITMA), which represents a number of tribal account holders, and representatives of non-ITMA member tribes. We attended BIA's February 1996 National Meeting in Albuquerque, New Mexico, to observe Interior's and BIA's presentation on the reconciliation procedures, reports, and results and the tribes' responses.

We conducted our work between April 1995 and March 1996 at BIA's headquarters in Washington, D.C., and its Office of Trust Funds Management in Albuquerque, New Mexico. Our work was performed in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Interior Department's Special Trustee for American Indians. On April 2, 1996, we received written comments from BIA's Reconciliation Project Manager. These comments are discussed in the "Agency Comments and Our Evaluation" section of this report. While we are not reprinting these comments, copies are available from GAO.

Reconciliation Results

Although BIA identified about 20,000 boxes of accounting documents and lease records and spent about 5 years attempting to reconcile tribal trust accounts, sufficient records were not available to fully reconcile the accounts. For example, BIA's reconciliation contractor verified 218,531 of tribes' noninvestment receipt and disbursement transactions totaling \$15.3 billion, or 86 percent, of the \$17.7 billion in transactions that were recorded in the general ledger. However, due to missing records, the contractor was not able to verify 32,901 of these transactions totaling \$2.4 billion (gross). In addition, BIA was not able to determine the total amount of receipts and disbursements that should have been recorded and

⁴In addition to contract modifications, issue papers were used to discuss and approve revisions to reconciliation procedures as unforeseen circumstances were encountered.

had no reconciliation procedure to address the completeness of the accounting records.

BIA's contractor also specifically tested \$21.3 billion, or 16 percent, of the investment transactions. According to BIA's Reconciliation Project Manager, in order to achieve efficiencies, BIA decided to verify investment activity by asking its contractor to perform alternative procedures to review interest yields. BIA performed related procedures to reconcile investment system balances and BIA's contractor identified deposit lag times (for information purposes only) on collections. However, the completeness of these procedures was also impacted by missing records.

BIA's contractor reconciled 692 leases with collections greater than \$25,000 and collections for 227 months for 213 timber sales contracts for certain tribes. BIA's contractor reported that \$601 million, or 99 percent, of lease receipts tested were verified. However, this represented only 10.7 percent of the leases originally identified for testing. Because BIA did not know the universe of leases, it could not determine total lease revenue expected to be collected during a given period and, therefore, it could not reliably determine the percent of lease revenue that had been tested.

Further, not all of the reconciliation procedures specified in BIA's reconciliation contract were performed and others could not be completed due to missing records, the lack of an audit trail through BIA's systems, and time and cost constraints. For example, BIA did not reconcile its subsidiary system to its general ledger and BIA could not complete the reconciliation of its Finance System (general ledger) transactions to Treasury records. Also, as stated earlier, because of the cost and level of effort and the potential lack of supporting documents, reconciliations of about 300,000 individual Indian accounts were not performed and no alternative procedures were developed. Appendix I contains detailed information on reconciliation procedures and results.

Reconciliation Reports

In January 1996, BIA provided to each tribe a report package⁵ on the results of the reconciliation procedures performed by its contractor for fiscal years 1973 through 1992, BIA's reconciliations for fiscal years 1993 through 1995, and a transmittal letter which described the information provided and BIA's plans to meet with tribes to discuss the reconciliation results.

⁵The report package included unreconciled account statements and a schedule of proposed adjustments for each of the years covered by the reconciliation.

We reviewed several drafts of BIA's reconciliation report package and provided oral and written comments and suggestions to OTFM between May 1995 and January 1996. We suggested that the usefulness of their report could be increased by clarifying technical terms so that the report would be more understandable to nonaccountants. We also suggested that BIA identify methodological changes addressed in contract modifications and issue papers and disclose scope limitations as part of the reconciliation report package. BIA's reconciliation contractor clarified technical language in the agreed-upon procedures report and stated the scope of the work performed. However, BIA did not disclose in the report package to tribes the procedures specified in the reconciliation contract which were not performed or could not be completed and the reasons. In addition, for the procedures which were performed, BIA did not fully disclose scope limitations or changes in methodologies, such as accounts and time periods that were not covered and alternative source documents used. While some scope limitations were discussed at the February 1996 National Meeting with tribes, BIA did not explain all methodological changes resulting from contract modifications and issue papers.

BIA modified the reconciliation contract 29 times and approved approximately 140 issue papers—including about 90⁶ which addressed changes in tribal reconciliation scope and procedures. For example, issue papers determined that certain adjustments relating to transfers would be reflected as of their general ledger posting date rather than the date that the original transaction occurred. Using the general ledger posting date instead of the transaction date could impact tribal interest calculations. Other issue papers determined that certain procedures could not be performed for specific tribes due to missing records.

We suggested that substantial changes in the scope or procedures as a result of contract modifications and issue papers be explained in the report package transmitted to the tribes. BIA considered providing issue papers to tribes on compact disk. However, the Reconciliation Project Manager told us that due to cost considerations, BIA decided instead that these issue papers would be made available to tribes at the OTFM in Albuquerque, New Mexico, or that tribes could request copies of specific documents by mail.

According to OTFM officials, a reconciliation report package was issued to each of 269 tribes in January 1996. The reports included summary results

⁶According to the Reconciliation Project Manager, the first 50 issue papers covered the reconciliation feasibility assessment period.

for all tribes and specific results on each tribe's accounts. In addition, on March 8, 1996, OTFM issued reports to 112 tribes on their portions of multitribe judgment awards. These judgment awards resulted from claims against the federal government. However, OTFM's Reconciliation Project Manager told us that OTFM may not be able to issue reports to all of the tribes involved in multitribe awards because some are no longer federally recognized as tribal entities, and BIA may not be able to locate the tribes or their descendants.

Certification of Reconciliation Results

The fiscal year 1990 appropriations act required a separate, independent certification that the accounts had been reconciled and audited to the earliest possible date and that the results were the most complete reconciliation possible. The certification requirement was imposed to obtain independent assurance of the accuracy and reliability of the reconciled balances. After the certification contract was awarded in September 1993, congressional committees and several tribes expressed concern about the objective of BIA's certification contract because BIA limited the scope of the certification contract to ensure only that the reconciliation effort was performed in accordance with the reconciliation contract. During the summer of 1995, Interior, OTFM, OMB, and the reconciliation and certification contractors' staff worked on modifying the certification contract to attempt to more fully explain each of the reconciliation procedures that the certification contractor was to verify.

To meet the act's certification requirement, we suggested that the certification contract focus on the extent to which the reconciliation procedures resulted in as complete an accounting as possible. Interior and OTFM officials told us that they believed that the reconciliation procedures, as designed, provided reasonable assurance that the account balances were accurate and that contractor certification on this point was not needed. Therefore, the certification contract focused on verifying that the reconciliation procedures specified in the reconciliation contract had been performed and no independent assessment of completeness was required.

In October 1995, the certification contractor estimated that it would require an additional 6 months and \$1.2 million to complete the certification work. According to OTFM's Reconciliation Project Manager, only \$600,000 was available to cover the additional work and it was not clear that the work could be completed in 6 months. As a result, Interior and BIA decided to terminate the certification effort as of November 30, 1995, and to obtain a status report from the contractor.

Because the contract was terminated, BIA's certification contractor did not complete its verification that the procedures in the reconciliation contract and related issue papers were performed. The certification contractor issued a status letter on November 30, 1995, which communicated the certification contract scope, methodologies, and preliminary results of 30 segments of the reconciliation work, including specific transaction testing, investment analyses, systems reconciliations, and pilot tribe reconciliation work. The status letter identified the following:

- 16 segments where errors or inconsistencies were reported to OTFM, including 8 segments with numerous errors and inconsistencies and 3 segments with methodological concerns;
- 12 segments where work was not performed by the certification contractor, or information was insufficient to provide results; and
- 2 segments where no errors were identified.

OTFM's Reconciliation Project Manager told us that the reconciliation contractor had addressed all of the issues and questions raised by the certification contractor as of November 30, 1995, and that BIA was following up to obtain clarification on whether the certification contractor had communicated all findings to BIA. Because the certification work was performed while the reconciliation was in process and the certification procedures were not completed, the usefulness of the status letter is limited.

Tribal Concerns

In February 1996, OTFM and reconciliation contractor officials conducted a 2-day meeting with tribes in Albuquerque, New Mexico, to discuss the reconciliation reports and results. BIA had invited all 269 tribes that had received reconciliation reports, and representatives of 79 of these tribes attended the national meeting. At the meeting, OTFM and reconciliation contractor officials summarized the reconciliation results and answered tribes' questions. Tribes raised questions about the (1) adequacy of the objectives and the scope of the reconciliation project, (2) effect of missing documents on the accuracy of the reconciled account balances, and (3) thoroughness of procedures used for testing the accuracy of recorded investment interest income.

Also, tribal representatives said they were concerned that the reconciliation procedures did not provide the same level of assurance as an audit, that BIA rather than the reconciliation contractor had performed some portions of the reconciliation, and that the number of missing

records further limited the assurance provided by the reconciliation results. In addition, tribal representatives said that the investment analyses did not reflect uninvested funds associated with deposit lag times. They were concerned that unearned interest associated with deposit lag times between BIA's receipt of funds and its deposit of the funds in a Treasury-designated federal depository bank could be significant.

The Reconciliation Project Manager explained that while an audit could not be performed due to the number of missing records, the reconciliation contractor performed agreed-upon procedures to attempt to verify account balances. He said that the results of the procedures performed were presented in the auditor's agreed-upon procedures report to each tribe, which was prepared in accordance with American Institute of Certified Public Accountants standards. OTFM's Director said that OTFM will consider having an independent review of the reconciliation work that BIA performed.⁷

The Reconciliation Project Manager explained that the investment analysis was a review of actual investment earnings and, therefore, it did not consider the effect of undeposited receipts or whether the funds earned maximum interest for secured investments. He also explained that for the pro forma analysis, interest was calculated at the Benchmark rate for "uninvested funds" in BIA's cash pool that earned interest at the Treasury overnight rate and comparisons were presented in the tribes' reports for information purposes.

The Reconciliation Project Manager also said that while many actual collection dates to identify the extent of the deposit lag times were not known, tribes could estimate interest amounts for the deposit lag times by using the information provided in their reconciliation reports. In October and November 1990, during discussions between ITMA and BIA on the reconciliation procedures to be performed, ITMA requested that the reconciliation contract identify deposit lag times because it believed that related unearned interest could be significant. BIA agreed to identify the lag times as a reconciliation procedure; however, BIA did not agree to propose adjustments to pay the lost interest. Because the law requires the Secretary of the Interior to invest and pay interest on tribal funds, ITMA stated that if BIA did not propose interest adjustments related to the deposit lag times, this information should be available for settlement negotiations. According to the Reconciliation Project Manager, the deposit

⁷In comments on a draft of our report, BIA's Reconciliation Project Manager stated that OTFM will consider having the tribes or their representatives review the results of BIA's reconciliations.

lag times provided in the reconciliation reports can be used by tribes in any settlement discussions with the government.

Tribes stated that they would need significant time to review their reconciliation reports and the supporting documents. OTFM's Reconciliation Project Manager said that tribes could meet BIA's April 19, 1996, time frame for submitting acknowledgement forms to BIA on their response to the reconciliation results by indicating on that form their need for more time to review their reports. According to the Reconciliation Project Manager, BIA had anticipated that tribes may need more time to review their reconciliation reports. As a result, BIA's acknowledgement forms ask tribes to indicate (1) the need for additional time to review the reported results and account statements, (2) the account balances they accept as reconciled, and (3) the account balances they dispute.

According to the Reconciliation Project Manager, OTFM had received acknowledgement forms as of April 16, 1996, from 21 of the 269 tribes that had received a report on their reconciliation results. Of these acknowledgements, 12 tribes indicated that they needed more time, 8 tribes requested individual meetings, and 1 tribe accepted the account balances as reconciled. The Reconciliation Project Manager told us that if a tribe accepts the reconciled account balances as correct before it attends a regional meeting, OTFM will follow up to ensure that the tribe's response reflected a clear understanding of the reconciliation reports and results. Appendix II contains additional information on tribal concerns and OTFM's responses.

OTFM Follow-up With Tribes

OTFM planned five regional meetings⁸ between March 1996 and July 1996 to serve as workshops to assist individual tribes in reviewing their reconciliation results. The Reconciliation Project Manager encouraged tribal representatives to carefully review their reconciliation reports, account statements, and the supporting documents for the basic reconciliation that BIA provided to the tribes on compact disks. He also urged the tribes to send their accountants to the regional meetings where each tribe's representatives will be allotted time to meet with the reconciliation contractor and to ask specific questions about their tribe's trust accounts. The regional meetings are to serve as workshops to assist tribes in understanding their reconciliation results.

⁸Since the completion of our audit work, OTFM has held two of the five planned meetings—on March 19-22 in Sacramento, California, and on April 9-12, in Portland, Oregon.

According to the Reconciliation Project Manager, OTFM will not be able to complete planned regional meetings with tribes on the reconciliation results until July 20, 1996. As a result, the Secretary of the Interior plans to meet the May 31, 1996, reconciliation reporting requirement in the American Indian Trust Fund Management Reform Act by providing an interim report to the House and Senate Committees by that date and a final report after the regional meetings are completed.

Previous GAO Findings

Our past testimonies and reports anticipated that when the reconciliation was completed, there might not be agreement on reconciled account balances. Our April and May 1991 testimonies⁹ stated that it would be difficult to locate records to support the reconciliation effort and that following the reconciliation, some or all accounts might need to be settled. Our June 1992 report¹⁰ recommended that BIA develop a proposal for reaching a satisfactory resolution of the trust account balances with account holders. Our report also stated that the BIA reconciliation contractor's latest cost estimate at that time for reconciling individual Indian accounts ranged from \$180 million to \$281 million and that because many accounts are not reconcilable, alternative approaches to reach agreement on account balances would be necessary. In March 1995, we testified¹¹ that further tribal reconciliation work would not provide reasonable assurance that the account balances are accurate and that the time had come for the Congress to consider legislating a settlement process that could include both tribal and individual Indian accounts.

Following our March 1995 testimony, your Committee and the House Committee on Resources, Subcommittee on Native American and Insular Affairs, asked us to prepare, for discussion purposes, draft legislation to establish a settlement process. We issued this draft legislation in September 1995.¹² Reports and testimonies related to our work are listed at the end of this report.

⁹Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust Funds (GAO/T-AFMD-91-2, April 11, 1991) and Bureau of Indian Affairs' Efforts to Reconcile, Audit, and Manage the Indian Trust Funds (GAO/T-AFMD-91-6, May 20, 1991).

¹⁰Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

¹¹Financial Management: Indian Trust Fund Accounts Cannot Be Fully Reconciled (GAO/T-AIMD-95-94, March 8, 1995).

¹²Indian Trust Fund Settlement Legislation (GAO/AIMD/OGC-95-237R, September 29, 1995).

Conclusions

Although OTFM made a massive attempt to reconcile tribal accounts, missing records and systems limitations made a full reconciliation impossible. Because BIA does not know the universe of transactions or leases, it does not know the total amount of receipts and disbursements that should have been recorded. Tribes have raised a number of concerns about the adequacy and reliability of the reconciliation results. If follow-up meetings with tribes do not resolve these concerns, the settlement process which we have previously recommended could be used as a framework for resolving disagreements on account balances.

In addition, due to cost considerations and the potential lack of supporting documentation, reconciliations for individual Indian accounts were not performed, and no alternative procedures were developed to verify these account balances. Since any attempt to reconcile these accounts would be costly and the results would be limited, these accounts could be included in the settlement process.

Agency Comments and Our Evaluation

The Interior Department's comments consisted primarily of numerous technical clarifications, which we incorporated where appropriate. The comments neither agreed nor disagreed with our overall message and conclusion that the accounts could not be fully reconciled and that a settlement process could provide a useful framework for resolving disagreements about account balances. However, BIA disagreed with our position that limitations in reconciliation scope and methodologies needed to be disclosed to provide useful information on the completeness of the reconciliation results.

The reconciliation requirement as legislated by the Congress was to reconcile the accounts to the earliest possible date and ensure, through independent certification, that the reconciliation was as complete as possible. Further, the Congress, in the American Indian Trust Fund Management Reform Act, required BIA's report to include a description of the reconciliation methodology and the account holder's conclusion as to whether the reconciliation represents as full and complete an accounting of its funds as possible. Therefore, in order for the tribes and the Congress to understand the reconciliation results and determine whether the reconciliation represents as full and complete an accounting as possible, it was important that BIA explain the limitations in reconciliation scope and procedures, including procedures that were not performed or were not completed.

Our report addresses several areas where our work identified significant reconciliation limitations and changes in procedures and methodologies that we believe should have been disclosed by BIA. These areas include the lack of a known universe of transactions and leases, the use of issue papers to approve changes in reconciliation scope and procedures due to unforeseen circumstances, and reconciliation procedures that could not be completed or were not performed. This additional information provides an important context for understanding the reconciliation results.

We are sending copies of this letter to the House Committee on Resources; the Secretary of the Interior; the Special Trustee for American Indians; the Assistant Secretary, Indian Affairs; the Director of the Office of Management and Budget; and other interested parties.

Please contact me at (202) 512-9508 if you or your staff have any questions concerning this report. Appendix III lists major contributors to this report.

A handwritten signature in black ink, reading "Linda M. Calbom". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Linda M. Calbom
Director, Civil Audits

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Abbreviations

BIA	Bureau of Indian Affairs
IIM	Individual Indian Money
IRMS	Integrated Records Management System
ITMA	Intertribal Monitoring Association
MMS	Minerals Management Service
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
OTFM	Office of Trust Funds Management

Reconciliation Procedures and Results

The reconciliation effort was to cover reconstruction of trust fund account activity, to the extent that records were available, using eight major reconciliation procedures. Due to missing records, the lack of an audit trail in BIA's systems, and cost and time constraints, not all reconciliation procedures could be completed and some procedures were not performed. BIA's reconciliation contractor performed reconciliation procedures for fiscal years 1973 through 1992. To meet the requirement in the American Indian Trust Fund Management Reform Act of 1994 that the reconciliation reports include the results of reconciliations through September 30, 1995, the reconciliation report packages provided to the tribes include the results of reconciliations performed by BIA for fiscal years 1993 through 1995. The report packages also include the results of reconciliations that BIA performed between the investment system and the Finance System (general ledger) for 26 tribes. The following summary addresses the reconciliation procedures that were performed by the contractor and those that could not be performed or were not completed.

Reconciliation Procedures Performed

The six major reconciliation procedures that were performed covered (1) transactions, (2) investment yields, (3) deposit lag times, (4) selected systems, (5) special procedures for five tribes, and (6) lease receipts.

Basic Transaction Reconciliations

This segment of the reconciliation included tracing 251,432 in total recorded noninvestment receipt and disbursement transactions¹ from the general ledger to source documents, such as deposit tickets, disbursement vouchers, and journal vouchers. OTFM's reconciliation contractor reported that \$15.3 billion, or 86 percent, of the total \$17.7 billion in noninvestment transactions for fiscal years 1973 through 1992 had been verified. According to OTFM's Reconciliation Project Manager, noninvestment transactions for 83 tribes were fully reconciled under this procedure and, for the transactions reconciled, BIA identified a probable error rate of only .01 percent. Where errors were identified, adjustments were proposed.

Due to missing records, 32,901 of the noninvestment transactions totaling \$2.4 billion (gross) could not be reconciled. According to Interior and OTFM documents, the \$2.4 billion included the following transactions which could not be traced to supporting documentation:

¹These transactions included receipts and disbursements from judgment awards and income from land-use agreements collected by various BIA offices, including grazing, timber, fishing, and rights of way.

- \$1.1 billion in receipts credited to tribal accounts that earned interest;
- \$.8 billion in tribal drawdowns (disbursements) of their account balances, refunds, and canceled checks; and
- \$.5 billion in internal transfers between the same tribe's accounts.

In addition, BIA was not able to determine the total amount of receipts and disbursements that should have been recorded. Therefore, the reconciliation project focused on transactions that were posted to BIA's general ledger for tribal accounts and no reconciliation procedure was performed to address the completeness of the accounting records. Further, the reconciliation report states that BIA, based on its institutional knowledge, did not accept all adjustments proposed by the reconciliation contractor.

BIA's contractor also reconciled \$21.3 billion, or 16 percent, of the recorded investment transactions as part of the basic reconciliation process. According to BIA's Reconciliation Project Manager, in order to achieve efficiencies, BIA decided to terminate the detailed transaction reconciliations. Instead, BIA asked its reconciliation contractor to verify investment transactions by performing procedures to review investment yields rather than testing individual transactions. BIA's contractor also identified deposit lag times for BIA collections and reconciled investment systems balances.

Investment Yield Analyses

This segment of the reconciliation included an investment yield analysis to compare tribes' interest earnings to the BIA benchmark rate, which was the annual average yield for all tribal funds invested. Any account's annual yield that was at least 2 percentage points below or 5 percentage points or more above the annual benchmark was investigated for errors. BIA's contractor also recalculated interest earnings on tribal investments in overnight Treasury deposits and compared interest received by tribes to the applicable Treasury rate. As a result of research on variations from the benchmark parameters and the historical Treasury interest rates, adjustments were proposed.

In addition to the yield analysis and Treasury interest analysis, BIA's contractor performed a pro forma analysis to estimate what might have been earned had "uninvested funds" (funds in BIA's cash pool that earned interest at the Treasury overnight rate) yielded returns comparable to the benchmark rates. The results of this procedure were provided for informational purposes and no adjustments were proposed.

Deposit Lag Times

Deposit lag times represent the number of days from the date funds were received by BIA to the date that the funds were deposited in a Treasury-designated federal depository bank. Because the date that the collections were received by BIA's various offices was not always clearly documented on the receipt documents, BIA established a hierarchy for determining surrogate collection dates. For example, if the receipt date did not appear on the collection voucher, the established hierarchy of surrogate dates was as follows—the most recent date on the collection voucher subsequent to the date on the payment check received, the stamped date that the voucher was processed, the date that the voucher was prepared, and the date that the voucher was approved.

The reconciliation report showed that transactions analyzed for lag times for the 20 years covered by the reconciliation totaled about \$3.2 billion. These funds were deposited between the established collection date and 30 days or more following the established collection date. The lag time information was provided for information purposes. No interest calculations were reported and no adjustments were proposed for interest lost as a result of deposit lag times. As stated earlier, ITMA requested that BIA present this information in the reconciliation reports.

Systems Reconciliations

The systems reconciliation² was to include reconciling (1) information in BIA's trust fund investment system to its general ledger in BIA's Finance System, (2) BIA's tribal general ledger in the Finance System to U.S. Treasury records, and (3) BIA's Integrated Records Management System (IRMS) to Finance System. The IRMS to Finance System reconciliation was not performed and is discussed in the next section of this appendix.

The investment system to Finance System reconciliation covered investment balances as of September 30, 1992. BIA performed the reconciliations for 26 tribes and proposed adjustments totaling nearly \$1.9 million. BIA's contractor's reconciliation report disclosed the procedures that BIA had performed.

To support the reconciliation of its tribal general ledger transactions in BIA's Finance System to Treasury reported transactions, OTFM provided available tribal Treasury reports (SF-224, Statement of Transactions

²During the 20-year reconciliation period, BIA used three major automated systems for trust fund accounting. They are (1) the Finance System, which was used to perform both tribal and general ledger trust fund accounting, (2) an investment system, which generated summaries of investment securities held on behalf of each tribe, and (3) the Integrated Resources Management System (IRMS), which provided subsidiary accounting for IIM accounts.

Reports) for fiscal years 1990 through 1992 to the reconciliation contractor. BIA's contractor completed the fiscal year 1992 reconciliation and included the results in BIA's January 1996 report package to tribes. However, BIA's reconciliation contractor was not able to complete the fiscal years 1990 and 1991 Finance System reconciliations in time to include them in the January 1996 report package due to differences in the way that BIA and Treasury summarize the tribal trust account activity, which made the reconciliation between their systems difficult. For example, BIA's SF-224, Statement of Transactions Report to Treasury, did not provide sufficient detail to distinguish tribal accounts from other fund accounts. As a result, tremendous effort was needed to reconstruct tribal account transactions from the source documents for fiscal years prior to 1992. According to BIA's Reconciliation Project Manager, a supplemental report on the fiscal years 1990 and 1991 Finance System reconciliations is being finalized for distribution to each tribe. BIA's contractor proposed adjustments to BIA's general ledger and also proposed reporting corrections to Treasury for variances where supporting documentation was available. No adjustments were proposed where supporting documentation could not be located.

The Special Procedures Review for Five Tribes

This effort was designed to perform agreed-upon procedures on an accelerated, pilot basis to identify potential problem areas. Five tribes³ agreed to participate in the special procedures review. The purpose of this work was to determine the workability of the procedures; however, as specified in the reconciliation contract, this work was to be performed simultaneously with other reconciliation work. BIA prepared a Memorandum of Understanding (MOU) for each tribe to cover both standard and special procedures. Our review of the approved MOUs for each of the five tribes showed that their special procedures generally covered timeliness of payments and deposits, internal control reviews, and special deposit accounts. The MOUs also covered specific areas of concern to each tribe, such as a detailed analysis of certain accounts. We did not review the reconciliation reports provided to these tribes.

Fill-the-Gap Procedures for Leases

These procedures included verifying tribal income by tracing general ledger postings to the original source documents, including leases, sales agreements, and production reports. Receipts tested covered oil, gas, and

³The five tribes agreeing to participate in the pilot procedures were the (1) Assiniboine and Sioux Tribes of Fort Peck, Montana, (2) Confederated Salish-Kootenai of Flathead, Montana, (3) Confederated Tribes of the Yakama Nation, Washington, (4) Hopi Tribe of Arizona, and (5) Three Affiliated Tribes of Fort Berthold, North Dakota.

coal royalties; timber sales; other surface leases, such as business leases; and grazing, hunting, fishing, and rights of way. Samples tested were generally selected based on the availability of supporting documentation.

The BIA reconciliation contractor's analysis of the general ledger information showed that 9 percent of the leases represented 95 percent of recorded lease revenues. Based on this analysis, the contract called for a review of all leases greater than \$5,000 and a test sample of 100 additional leases of less than \$5,000 on a cross section of tribes. The reconciliation contractor globally identified 6,446 surface leases with annual collections of over \$5,000. However, due to time constraints for completing the reconciliation, 1,399 leases with collections greater than \$25,000 were identified for testing, of which OTFM located 755 lease files. Of the lease files located, 692 leases were tested. Because of missing records, a number of leases and sample test months were substituted for those in the original sample. BIA's reconciliation contractor reported that 99 percent of the lease receipts tested were verified. The leases tested represent 10.7 percent of the leases known to have annual collections greater than \$5,000 and about one half of the leases known to have collections greater than \$25,000.

In addition, the reconciliation contractor judgmentally selected and tested 227 sample months for 213 timber sales contracts for five tribes⁴ with significant timber receipts and oil and mineral receipts for one tribe.⁵ BIA's reconciliation contractor reported that 99.7 percent of the timber receipts tested were verified and 93.9 percent of the oil and mineral receipts tested were verified. Overall, BIA's contractor reported that 98.7 percent of the lease revenues tested were reconciled.

Reconciliation Procedures Not Performed

Not all reconciliation procedures that were specified in BIA's initial reconciliation contract could be performed or completed due to missing records and time and cost constraints associated with the need to locate and trace numerous manual records. However, BIA's transmittal letter to tribes did not disclose the inability to complete these procedures. Reconciliation procedures that could not be performed or completed covered (1) reconciling the IRMS (subsidiary system) to the Finance System (general ledger) and reconciling the Finance System to Treasury

⁴The five tribes are Hoopa Valley Tribe, California; Makah Tribe, Spokane Business Council, and Colville Business Council, Washington; and Confederated Tribes of Warm Springs, Oregon.

⁵The one tribe with significant oil and mineral receipts that were collected by BIA was the Osage Nation of Oklahoma.

transactions for fiscal years prior to 1990, (2) verifying balances in tribal IIM⁶ and special deposit accounts,⁷ (3) verifying Minerals Management Service (MMS) royalty collections, and (4) reconciling accounts of individual Indians.

**Subsidiary Systems
Reconciliations**

While BIA officials told us that the IRMS reconciliation was not performed due to time and funding limitations, we believe that even without those limitations, the lack of an audit trail in the IRMS system—including the lack of distribution tables to support disbursements—would have prevented reconciliation of tribal IIM and special deposit accounts. It also would have prevented or severely limited IRMS to Finance System reconciliations. In addition, the Finance System was not reconciled to Treasury for fiscal years prior to 1990.

**Reconciliations of Tribal
IIM and Special Deposit
Accounts**

This initiative was to include exploratory work on the reconciliation of tribal IIM and special deposit accounts for the five tribes that participated in the special procedures pilot work. Tribal IIM accounts maintained in the IRMS system were to be reconciled to the source documents and tribal special deposit accounts were to be reconciled from the source documents that moved the funds to the tribes' general ledger accounts. Due to missing records and the lack of an audit trail through the IRMS system, BIA determined that tribal transactions could not be efficiently isolated from individual Indian transactions. According to OTFM's Reconciliation Project Manager, the special deposit account work for each of the five tribes was completed and the results were included in their reconciliation reports. However, special deposit account reconciliations related to leases were not performed because of a change in BIA's method for selecting leases, which excluded leases with multiple owners for which payments could not be identified to each owner.

**Fill-the-Gap Procedures for
MMS**

These procedures were requested by ITMA to fill the gap between the posting of collection transactions and the leases in order to determine whether MMS Indian royalty accounting data transferred to BIA were reliable. The initial work was to include a review of MMS procedures and documents in order to evaluate the feasibility and level of effort needed to

⁶Tribal IIM accounts are maintained in the IRMS accounting system. Because tribal and individual IIM funds are commingled in the accounting records, tribal funds cannot be identified or distributed until ownership records are researched for all leases.

⁷BIA uses special deposit accounts primarily as clearing accounts for funds received that have not been distributed to account holders because the account owners have not been identified.

perform detailed fill-the-gap work for MMS receipts and to recommend test procedures. Because MMS retained records for only 6 years, records for most of the 20-year reconciliation period were not available. As a result, BIA asked its reconciliation contractor to recommend procedures to verify that MMS followed its royalty collection and accounting procedures. However, the procedures proposed by BIA's contractor would not have traced collections from the leases to the general ledger. The verification of MMS' procedures, which was to be performed in fiscal year 1996, was not performed because the reconciliation project was brought to a close as of September 30, 1995.

IIM Reconciliations

Our June 1992 report⁸ stated that many of the approximately 300,000 IIM accounts were not reconcilable due to missing records and the cost of reconciling a large number of accounts with small balances. BIA's reconciliation contractor initially estimated a cost ranging from \$211 million to nearly \$400 million. A subsequent scope reduction decreased the estimate to between \$180 million and \$281 million, which was about one-half of the reported \$440 million balance of the IIM accounts as of September 30, 1991. BIA's reconciliation contract did not include IIM accounts.

In our June 1992 report, we recommended that BIA consider alternative approaches to reach agreement on IIM account balances, such as negotiating agreements with account holders. In 1991, BIA established a work group to develop IIM reconciliation approaches and alternatives. In 1995, the work group identified a number of reconciliation and policy questions for presentation to BIA and Interior management, including statistical sampling, using dollar ceilings, reconciling for time periods where records are available, and sending account statements to account holders for them to confirm or question the balances. However, as of March 1, 1996, no decision had been made on workable IIM account reconciliation alternatives.

⁸Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

Tribal Concerns

At BIA's February 1996, National Meeting to explain reconciliation reports and results, tribes raised a number of concerns, including the (1) adequacy of the objectives and scope of the reconciliation project, (2) effect of missing documents on the accuracy of the reconciled account balances, and (3) thoroughness of procedures used for testing the accuracy of recorded investment interest income. The following discussion highlights the tribes' concerns and OTFM's responses.

Project Objectives and Scope

Tribal concerns about the reconciliation project's objectives and scope included the following:

- the lack of an audit and how this affected the reliability of the reconciled account balances,
- the failure to include fraud as a reconciliation objective,
- the reliability of portions of the reconciliations that BIA rather than the independent contractor had performed and adjustments that BIA had proposed, and
- the fact that the effort seemed to consist mainly of a reconciliation of BIA accounts with BIA-generated documents.

In response to these concerns, OTFM and reconciliation contractor officials explained the following:

- The accounts could not be audited due to missing records and, as a result, the reconciliation consisted of agreed-upon procedures to verify account balances to the extent practicable.
- While detection of fraud was not a reconciliation objective, no instances of fraud were identified by the reconciliation contractor.
- BIA had reconciled investment system data for several years before the reconciliation effort began and that BIA did not believe that it was cost-effective to repeat this work.
- Because the American Indian Trust Fund Management Reform Act of 1994 required that BIA provide tribes with reconciled accounts statements as of September 30, 1995, the statements include the results of reconciliation procedures performed by BIA's contractor for fiscal years 1973 through 1992, and the results of OTFM's systems reconciliations for fiscal years 1993 through 1995.
- OTFM will consider having an independent auditor review the results of the procedures performed and adjustments proposed by BIA.¹

¹In comments on a draft of our report, BIA's Reconciliation Project Manager stated that OTFM will consider having the tribes or their representatives review the results of BIA's reconciliations.

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- Tribal authorizations for withdrawals of trust funds and Treasury receipt and disbursement documentation were reviewed during the reconciliation.

Missing Documents

Tribal representatives pointed out that the reconciliation report stated that missing documents had prevented the reconciliation of almost 33,000 general ledger transactions totaling \$2.4 billion (gross) and many of the leases selected for testing. They raised concerns about the assurance provided by the reported results, including the following:

- The large amount of unreconciled transactions may have impacted the validity of the reported reconciliation results.
- The methodology provided no assurance that all transactions were recorded in the general ledger.
- Because BIA had no comprehensive database for leases and no accounts receivable system, it had no way of determining the universe of leases or the amounts of lease revenue expected to be collected during a given period.
- The small judgmental sample of leases tested may not be representative of the universe of receipt transactions.
- The fill-the-gap procedures, which attempted to trace receipts from the general ledger to the leases or other land-use agreements, were not designed to find leases that were not already known to exist.
- Proposed adjustments that showed amounts owed by tribes on lease receipts may have resulted from overpayments by companies which may have been corrected in subsequent periods that were not reviewed by the reconciliation contractor.

OTFM's Reconciliation Project Manager told tribal representatives that despite time and money constraints, the government had made a good-faith effort to reconcile the tribal accounts and that BIA had identified a low error rate for the transactions that could be reconciled. The Reconciliation Project Manager and contractor officials explained the following:

- BIA does not know the universe of leases and the general ledger was the starting point for both the basic transaction reconciliations and the lease receipt testings.
- In some instances, the reconciliation contractor was able to verify lease receipts against lease documents and trace them to the general ledger.
- Judgmentally selected sample test months for about 10 percent of the total leases originally identified for testing were tested.

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- It was possible that for lease overpayments, subsequent adjustments were made that were not reviewed by the reconciliation contractor.

Investment Analysis

Another area of concern to tribes was the investment analysis. This task included certain analytical procedures and interest yield analyses for investment in Treasury securities and other investments. Tribes expressed the following concerns:

- Invested funds may not have earned maximum interest.
- The yield analyses would not reflect unearned interest on uninvested amounts due to deposit lag times—the time that elapsed between BIA’s various offices’ receipt of lease revenues and the time the funds were invested.
- The actual lag times could not be determined due to missing records and the dates used in the lag time calculations could have been several days after the actual collection date.
- The 30-day category included lag times of over 30 days.
- Unearned interest resulting from deposit lag times could be significant.

OTFM’s Reconciliation Project Manager provided the following clarifications.

- BIA invested funds in government securities or collateralized accounts, as required.
- The yield analysis did not reflect undeposited amounts due to lag times.
- Priorities were established for determining collection dates.
- The zero lag time category generally represented the actual collection dates.
- Although the 30-day category included lag times of over 30 days, tribes could, for the most part, calculate the interest related to lag times by using the information in their reconciliation reports.

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